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Germany trying for a lucrative contract in Russia

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Handelsblatt reported on 14 April that Rudiger Grube, the CEO of the German railway corporation Deutsche Bahn (DB), travelled to Paris to meet the CEO of the Russian National Railroads (RZD), Vladimir Yakunin. They discussed negotiations of the contract to build a fast railway connection from Moscow to Kazan, 800 km long, planned to be launched for the 2018 FIFA World Cup in Russia. Rudiger Grube had intended to visit Moscow to discuss this issue towards the end March. However, when Siemens' CEO's meeting with Vladimir Putin in mid-March was criticised in Germany, Mr Grube cancelled his visit. The consortium – which will consist of Deutsche Bahn, Siemens, Deutsche Bank and the French railways SNCF – stands a great chance of winning this contract, which is worth 20 billion euros.

Commentary

- Both the German and the Russian side want this contract to be concluded. German railways are 100 per cent state-owned. Therefore, it seems that consent from Chancellor Angela Merkel was required to negotiate a contract of this magnitude. The federal government's spokesman stated that as long as third-level sanctions were not imposed on Russia, German companies (including state-owned ones) had the right to continue economic co-operation with Russia. This means that regardless of the fact that the situation in eastern Ukraine is still tense, Germany is not yet ready to take action to reduce the volume of its economic exchange with Russia. Germany feels it must play the role of a mediator in the conflict between the West and Russia, and still believes that maintaining strong economic bonds will have a stabilising effect on mutual political relations.
- German politicians are aware of the fact that winning this contract, worth 20 billion euros (for comparison, Nord Stream is worth around 9 billion euros), which is equivalent to 55% of Germany's annual exports to Russia, would contribute to reinforcing the position of German companies on the Russian market. This would also help to offset the negative trade balance reaching 4 billion euros annually. Some German corporations see the tension in relations between Russia and the West as transitional and believe that this is a good moment to strike deals (RWE sold RWE Dea to the Russian investment fund LetterOne, and Wintershall and Gazprom exchanged assets in March this year) and to negotiate new contracts. German companies pin especially high hopes on contracts linked to the organisation of the 2018 FIFA World Cup in Russia. They already were granted contracts totalling 1.5 billion euros. In turn, contracts with German firms add

legitimacy to Russia as an economically reliable country. Furthermore, by playing on promises to grant the contracts, Moscow is stimulating German companies to lobby the government in Berlin and also EU institutions. Moscow is thus using the pressure of German companies to make these institutions less determined to impose economic sanctions on Russia.

- The developments in Ukraine have not yet brought about any major adverse consequences for the German economy. However, according to estimates from the Kiel Institute for the World Economy, German exports are predicted to achieve poorer results on foreign markets this year due to the Russian-Ukrainian conflict and the weakening of currencies in emerging economies. This may reduce future growth of the German economy from 2% to 1%. Germany's government and companies agree that isolating Russia will bring nothing but economic losses.